POSTED 6/3/03 ORIGINAL

Moore Sewer, Inc.

Application for approval of an adjustment of rates and charges to reflect its operation as a Collection-Only Sewerage Utility

S. C. PUBLIC SERVICE COMMISSION
RECEIVED
JUN 03 2003
RECEIVED
UTILITIES DEPARTMENT

Docket No. 2003-41-S

RECEIVED
2003 JUN -3 PM 12:03
SC PUBLIC SERVICE COMMISSION

Direct Testimony and Exhibits
Sharon G. Scott
Audit Department

Public Service Commission of South Carolina

RETURN DATE: 06 [illegible]
SERVICE: OK

TESTIMONY OF SHARON G. SCOTT
FOR
THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA
DOCKET NO. 2003-41-S
IN RE: MOORE SEWER, INC.

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.

A. My name is Sharon G. Scott. My business address is 101 Executive Center Drive, Columbia, South Carolina. I am an Auditor for the Public Service Commission of South Carolina.

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND YOUR BUSINESS EXPERIENCE.

A. I received a B.S. Degree in Business Administration, with a major in Accounting from the University of South Carolina in May 1983 and a MBA degree from Webster University in May 2000. I was employed by this Commission in July 1983, and have participated in cases involving gas, electric, telephone, and water and wastewater utilities. I have 20 years of auditing experience.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY INVOLVING MOORE SEWER, INC.?

A. The purpose of my testimony is to set forth, in summary form, the Staff's findings and recommendations resulting from our review of the Company's application in this docket. These findings and recommendations are set forth below in my testimony.

Q. AS A RESULT OF YOUR REVIEW, DID YOU ALSO PREPARE SEVERAL EXHIBITS WHICH ARE ATTACHED TO YOUR TESTIMONY?

A. Yes, I did.

Q. PLEASE EXPLAIN THE REASON MOORE SEWER, INC. IS REQUESTING A COLLECTION-ONLY RATE.

A. Moore Sewer, Inc. will no longer treat the sewage it collects from its customers. Sewage treatment is now being performed by the Spartanburg Sanitary Sewer District. However, the Company's rates were designed to cover both the treatment and collection of sewage. The Company is requesting rates and charges to reflect its operations as a collection-only sewerage utility.

Q. (MARK FOR IDENTIFICATION). NOW WOULD YOU EXPLAIN THE CONTENTS OF THIS REPORT?

A. As outlined in the Index of Staff's report, the first 4 pages contain the report analysis. The remaining pages consist of exhibits which were prepared to show various aspects of the Company's operations and financial position. The major portion of my testimony will refer to Audit Exhibit A, Operating Experience and Operating Margin, as shown on page 5 of the Staff's report. Staff prepared this exhibit in compliance with the Commission's standard procedures for Water and Wastewater utility rate increases.

Q. PLEASE EXPLAIN THE FORMAT OF EXHIBIT A.

A. Column (1) shows the Company's per book balances as of October 31, 2002. Staff verified the per book balances to the Company's books and records.

Column (2) shows the Staff's accounting and pro forma adjustments designed to normalize the Company's per book operations and assign the collection-only expenses.

Column (3) shows Staff's computation of the Company's normalized test year and collection-only expenses prior to the effect of the proposed increase.

Column (4) shows the Staff's adjustments for the proposed increase as furnished by the Utilities Department and the expense adjustments related to the proposed increase.

Column (5) shows the Staff's computation of the normalized test year after the accounting and pro forma adjustments and the effect of the proposed increase and its associated adjustments for a collection-only utility.

Q. PLEASE ELABORATE ON THE CALCULATIONS IN EXHIBIT A.

A. Shown in column (1) is the per book operating experience of the Company's sewer operations. Staff computed Net Operating Income of ($173,680) based on Total Operating Revenues of $88,476 less Total Operating Expenses of $262,156. The Company had no Customer Growth. Net Income for Return of ($173,680) and Total Operating Revenues of $88,476 produced an Operating Margin of (201.14%) after including per book Interest Expense of $4,282. In column (2), Staff's accounting and pro forma adjustments were designed to normalize the Company's test year operations and assign per book expenses to collection-only operations. A description of each adjustment is contained in Exhibit A-1. Column (3) reflects the as adjusted figures. The accounting and pro forma adjustments increased Net Income For Return to $61,074. The Operating Margin increased from (201.14%) to 44.05%. Column (4) shows the effect of the proposed increase as computed by the Utilities and Audit Departments. These adjustments are detailed in Exhibit A-1 of the report. Column (5) shows per book operations as adjusted to normalize the test year, assign collection-only expenses and adjust for the proposed increase. As a result, Net Income for Return amounted to $76,586. Using Net Income for Return of $76,586 and Total Operating Revenue of $157,320, Staff computed an Operating Margin of 47.07%. The As Adjusted and After the Proposed Increase Operating Margins include synchronized Interest Expense of $2,535.

Q. HOW DID THE STAFF DETERMINE WHICH EXPENSES WERE COLLECTION-ONLY EXPENSES?

A. The Staff has routinely used allocations provided by the Utilities Department to determine the collection-only expenses. However for this Company, Staff could verify the majority of the actual expenses. The Company proposed to amortize the expenses associated with the close-out and sewer line extension and therefore identified many of the actual expenses. Staff identified and verified the actual expenses associated with the close-out of the sewer lagoon and the sewer line extension with the exception of the electricity expenses where 25% of the per book amount was allocated to collection-only expenses. The allocation was provided by the Utilities Department.

Q. PLEASE EXPLAIN THE ADJUSTMENTS IN EXHIBIT A-1.

A. Yes, the adjustments are as follows:

Adj. # 1 - The Staff proposes to annualize revenues using the year end customers at the current rate for Madera and Linville Hills subdivisions. Staff's adjustment amounts to $44,424. This adjustment was computed by the Utilities Department. (U).

Adj. #2 - The Staff proposes to remove the per book amount of $10,162 for Purchased Power since it represents accrued expenses for a prior period. Staff corrects the account in adjustment #3. For this account the Company proposes to allocate 25% of the purchased power expenses of $10,162 or $2,541 to collection only expenses, therefore removing ($7,621) from operating expenses. (A)

Adj. #3 – The Company inadvertently classified electric expenses in the Utilities Non-electric account. The Staff proposes to reclass Utilities Non-electric to the Purchased Power account and to allocate 25% of the total test year electric expenses to collection only operations. This allocation rate was recommended by the Utilities Department. Total test year Electric Expenses amounted to $5,683 with 25% or $1,421 being allocated to collection only expenses. This amounts to an adjustment of ($3,503), the per book amount of $4,924 less the Staff computed account balance of $1,421. The Company proposes to include the total per book amount of $4,924 in the collection only expenses. (A) & (U)

<u>Adj. # 4</u> - The Staff proposes to reclassify the total expenses for Fuel for Power Production to the close-out expenses. The fuel was for the equipment to close down the sewer pond and for the sewer line interconnection. These expenses would be eliminated for a collection only sewer system. The Company proposes to include 100% of the per book amount of $1,991 in operating expenses. (A)

<u>Adj. # 5</u> - The Staff proposes to remove the total expenses for chemicals of $1,281. These chemicals were used for the sewer treatment plant and are no longer needed for a collection-only system. The Company proposes to include 40% of the per book amount of $1,281, or $513, resulting in a Company adjustment of ($768). (A).

<u>Adj. # 6</u> - The Staff proposes to remove $6,690 from total Materials and Supplies of $14,205 and reclassify to close-out and capital costs. Staff removed manhole expenses of $2,177 and sewer line extension expenses of $4,513 which resulted in an account balance of $7,514 for collection only Materials and Supplies. These expenses were incurred as a result of the interconnection for the Linville Hills subdivision to the Spartanburg Sanitary Sewer District. The Company proposes to allocate 84.68% of the per book amount of $14,205, or $12,028, to collection only expenses, which results in a Company adjustment of ($2,177). (A)

<u>Adj. # 7</u>-The Staff and the Company propose to include 100% of the per book expenses for Office, Postage, Miscellaneous, and Taxes Other Than Income. The Staff and Company agree that these expenses will still be incurred for a collection only system. The per book expenses amounted to $230 for Office Expenses, $513

for Postage expenses, $190 for Miscellaneous Expenses, and $271 for Taxes Other Than Income. No adjustment is made to these accounts. (A)

Adj. # 8 - The Staff proposes to annualize Contractual Services - Billing to reflect the expenses for billing the customers of Linville Hills and Madera subdivisions. The cost is $1.00 per bill and the Company sends out 307 bills per month, which amounts to $3,684 per year. Staff subtracted the per book amount of $3,092 from the Staff's annualized amount of $3,684 for a total adjustment of $592. The Company proposes to include 100% of the per book amount of $3,092 for collection only expenses. (A)

Adj. # 9 - The Staff proposes to remove $11,961 from total Contractual Services-Professional of $16,148, resulting in an account balance of $4,187. Staff reclassified $2,600 for the engineering and surveying of the Linville Hills sewer line connection to capitalized expenses and amortized an extraordinary electrical repair of $4,189 over a 5-year period by eliminating $3,351. The 5-year amortization period is the average number of years between the Company's last three rate proceedings including the present case. Staff also removed expenses already included in the account of $357, and reclassified equipment rental expenses of $1,436 to close-out expenses and capitalized expenses. Staff removed rate case and legal expenses in the test year of $4,217 and amortized these expenses over 5 years in adjustment # 21. The Company proposes to allocate 82.97% of the per book amount of $16,148, or $13,398, to collection only expenses for an adjustment of ($2,750). (A)

Adj. #10 – For Contractual Services – Testing, the Staff and the Company propose to reclassify $1,190 for J. L. Rogers & Calcott to close-out expenses and eliminate $1,800 for wastewater testing expenses from Greenville Analytical for a total adjustment of ($2,990). These expenses will no longer be needed for a collection only system. (A)

Adj. #11 - The Staff proposes to eliminate total Contractual Services-Other of $83,100, resulting in an account balance of -0-. The Staff eliminated $6,000 for the sewer plant operator, $13,500 for payment on accounts payable to Operations Drains which had already been included in expenses, $847 for pump repairs which would be eliminated as a collection only expense, $821 for software and tools which should be capitalized, and reclassified equipment rental of $4,620 and labor expenses of $57,312 to the close-out and capitalized expenses. The Company proposes to include 4.08% of the per book expenses of $83,100 or $3,390 for collection only expenses, which results in a Company adjustment of ($79,710). (A)

Adj. #12 - The Staff proposes to remove rental expense of $97,172 from the per book amount of $98,939, resulting in an account balance of $1,767. The account balance includes office rent and utilities. Staff eliminated prior period rent to the shareholder of $18,600 for the rental of the lagoon which is no longer needed after the close of the treatment facilities and eliminated $14,400 which was also included in this account as rent to shareholder for the lagoon. Staff considered these amounts to be a distribution to the shareholder and not an expense item. However in Docket No. 1999-397-S, Order No. 2001-243, the Commission allowed the owner a salary of $19,200, or $1,600 per month, which is the same amount for the monthly rental expense. If the Commission decided to include a salary of $19,200, the Operating Margin after the Proposed Increase would change from 47.07% to 39.40%. Staff also reclassified expenses of $64,319 associated with closing the lagoon, manholes, and the sewer line extension to close-out and capitalized costs. Staff also annualized the office rent and utility expenses and increased expenses by $147. The Company proposes to allocate 22.22% of the per book amount of $98,939, or $21,980 to collection only expenses, which results in a Company adjustment of ($75,959). (A)

Adj. #13 - The Staff proposes to remove 2001 accrued expenses for Transportation of $877 from the per book amount of $5,451, resulting in an account balance of $4,574. Prior period expenses should not be included in the test year figures. The Company and Staff propose to allocate 100% of the transportation expense of $5,450 and $4,574 respectively, to the collection only expenses. (A)

Adj. #14 - The Staff proposes to remove 2001 accrued expenses of $1,428 for Insurance from the per book amount of $4,990, resulting in an account balance of $3,562. Prior period expenses should not be included in the test year figures. The Company and Staff propose to allocate 100% of the per book expense of $4,990 and $3,562 respectively, to collection-only expenses. (A)

Adj. #15 - The Staff and the Company propose to eliminate 100% of Livestock Expense of $22 which is no longer needed for a collection only system. (A)

Adj. #16 - The Staff proposes to reflect 12 months for telephone expenses by removing $159 from the per book amount of $2,360 which results in an account balance of $2,201. The Staff and Company proposes to include 100% of the per book amount of $2,201 and $2,360, respectively. (A)

Adj. #17 - The Staff and Company propose to annualize depreciation expense based on year-end plant and depreciation rates recommended by the Utilities Department and reflect depreciation expenses allocated to collection-only operations. Staff computed total plant allocated to collection only operations of $94,268 and depreciation expense associated with this plant of $3,059. Staff subtracted the per book amount of $9,552 from Staff's computed amount of $3,059 for an adjustment of ($6,493). See Audit Exhibit A-2 for details. The Company proposes to allocate 50.78% of the per book amount of $9,552 for an account balance of $4,850. The undepreciated value of $11,539 for the retired treatment plant is included in the extraordinary retirement of the close-out costs for the sewer lagoon. This amount is amortized over a 5-year period which is the average number of years between the Company's last 3 rate proceedings. This amount is included in adjustment #20 for the amortization of close-out costs. (A) & (U)

Adj. #18 - The Staff proposes to remove $503 from the taxes and licenses expense account which was inadvertently added to this account. The Company had originally filed in its application an account balance of $1,703. The Company also made this correction in its pre-filed testimony. The Staff also proposes to remove $1,200 for the DHEC permits which are no longer needed for a collection-only system per the Utilities Department. (A & U)

Adj. #19 – The Staff and Company propose to amortize over 40 years, the capacity fees paid to the Spartanburg Sanitary Sewer District of $17,933 and to the City of Spartanburg of $28,154 for the Madera connection and the known and measurable amount of $8,901 to be paid to the Spartanburg Sanitary Sewer District for the Linville connection, for a total amortization of $1,375 ($54,988/40 years). These expenses were required to be paid before the Company could interconnect with the City of Spartanburg or the Spartanburg Sanitary Sewer District. See Audit Exhibit A-4 for details. The Company also proposes an adjustment of $1,375 in its revised application Exhibit B-6. (A) & (U)

Adj. # 20 - The Staff proposes to adjust for an extraordinary retirement of the treatment plant and the costs to close-out the sewer lagoon and capitalize the costs for the manholes and the sewer line extension. Staff amortized the total expenses for the extraordinary retirement of $72,541 over 5 years, for a total yearly amortization of $14,508. The 5-year amortization period is the average time between the Company's last three rate proceedings. The Staff proposes to capitalize the expenses for the manholes and the sewer line extension of $64,452. The capitalized expenses include labor, equipment rentals, and materials and supplies. Staff computed depreciation expense of $1,611 using a depreciation rate of 2.5%, or 40 years as recommended by the Utilities Department. The Company proposes to amortize total close-out expenses of $143,109 over a three-year period for an adjustment of $47,703. The differences between the Staff's and Company's computations are shown in Exhibit A-5. Staff included an additional equipment rental of $1,621, removed accounts payable already included in expenses of ($12,500), recomputed accrued labor to exclude the addition of federal, state, and employee's FICA to gross wages and recomputed the hours for labor from August 2002 – October 2002 for an adjustment of ($10,110). Staff also recomputed the equipment expenses charged by Operation Drains, Inc. to Moore Sewer, Inc. The owner of Moore Sewer, Inc. also owns Operation Drains, Inc. The equipment was used to close down the pond and for the sewer line interconnection. Operation Drains, Inc. charged Moore Sewer, Inc. 75% of the going market price for the equipment rental based on quotes obtained by the Company. Staff also obtained quotes from three rental companies for the going price for equipment rentals, averaged the three costs and applied a 75% factor. Staff adjusted the cost for equipment rentals by ($8,011). Staff included $4,842 of equipment rentals missed for the test year and rental expenses which were incurred after the test year. Staff included Materials and Supplies for the sewer line interconnection of $4,513 which were reclassified from Account # 720 and fuel used for rental equipment of $1,991, which was reclassified from Account #716. Staff also included in the extraordinary retirement, the undepreciated balance of the retired treatment plant of $11,539. Staff was able to determine the specific expenses related to the closing of the sewer lagoon, sewer line extension, manholes, accrued expenses paid by Moore, and Materials and Supplies from Account #720. The remaining expenses were allocated 50% to closing the lagoon and 50% to the sewer line interconnection. This allocation was based on the Company's determination that the work involved for the remaining expenses, which include equipment rentals and labor, were equally divided between the closing of the lagoon and the sewer line interconnection. (A) & (U)

Adj. # 21 - The Staff proposes to amortize rate case expenses over a 5-year period. The 5-year period is based on the rate case history of the Company and its previous owner. Staff determined that three (3) cases, including the current case, have been filed over a 15-year period for an average of 5 years between each case. The cases used for the amortization was the present case with a test year ending October 31, 2002, Docket Number 1999-397-S with a test year ending August 31, 2000 and Docket Number 87-204-S with a test year ending December 31, 1987. Staff amortized total rate case expenses of $17,363, which included test year expenses from the previous Docket No. 2002-104-S of $4,217 and current rate case and accountant's fees of $13,146, over 5 years for a total amortization of $3,473. The Company proposes to amortize estimated rate case expenses of $12,000 over a three-year period for an amount of $4,000. (A)

Adj. # 22 - The Staff proposes to compute gross receipts taxes on the as adjusted revenue. There were no gross receipts taxes per books. Staff used the current gross receipts factor of .008141931 applied to the as adjusted revenue of $132,900 for an adjustment of $1,082. (A)

Adj. # 23 - The Staff proposes to adjust income taxes based on taxable income as adjusted including synchronized interest expense. Staff allowed only interest expense associated with the long-term debt portion of rate base. This method ensures that only interest expense for plant investment is included and not interest expense for loans used to fund day-to-day operations. Staff computed a rate base of $164,591 by using the collection only plant in service of $94,268, capacity fees of $46,087, and capitalized plant of $64,453. Staff computed accumulated depreciation of $45,916 using the rates recommended by the Utilities Department and Cash Working Capital of $5,978 using the 45-day collection cycle. Staff subtracted $280 for Customer Deposits. Since the Company had negative retained earnings, Staff utilized a 50/50 capital structure to allocate total rate base of $164,591 to long-term debt, which amounted to $82,295. Staff computed an overall cost rate of 3.08% applied to $82,295 for allowable interest expense of $2,535. Staff used a 5% state tax rate and the federal tax rates of 15% & 25%. (See Audit Exhibit A-3) (A)

Adj. # 24 - The Staff and Company propose to show the effect of the proposed increase of $24,420. The Utilities Department computed the proposed increase using the present customers and the proposed rate. (U)

Adj. # 25 - The Staff proposes to adjust gross receipts taxes for the effect of the proposed increase. Staff applied the gross receipts factor of .008141931 to the proposed increase of $24,420 for an adjustment of $199. (A)

Adj. # 26 - The Staff proposes to adjust income taxes for the effects of the proposed increase. Staff used a 5% state tax rate and the federal tax rates of 15%, 25%, and 34%. Staff also used synchronized Interest Expense of $2,535 in computing the Income Taxes after the proposed increase. (See Audit Exhibit A-3) (A)

Q. PLEASE DESCRIBE THE REMAINING AUDIT EXHIBITS.

A. Exhibit A-2 shows the Computation of Depreciation Expense. Exhibit A-3 shows the Computation of Income Taxes. Exhibit A-4 shows the Amortization of Capacity Fees. Exhibit A-5 shows the Amortization and Capitalization of Close-out Costs. Exhibit A-6 shows the Income Statement for Collection-Only Operations and the details of the Operating Revenue and Expenses before and after the Company allocations and Staff's assignment to Collection-Only Expenses. Exhibit A-7 shows the Income Statement for the Test Year Ended October 31, 2002. Exhibit A-8 shows the Balance Sheet for the Test Year Ended October 31, 2002.

Q. WHAT IS THE RESULTANT OPERATING MARGIN FROM THE RATES BEING REQUESTED IN THIS CASE?

A. As computed by Staff, the Operating Margin is 47.07%, which includes synchronized Interest Expense of $2,535.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

REPORT OF THE AUDIT DEPARTMENT

THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

DOCKET NO. 2003-41-S

MOORE SEWER, INC.

INDEX

REPORT OF THE AUDIT DEPARTMENT

THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

DOCKET NO. 2003-41-S

MOORE SEWER, INC.

SYNOPSIS

Amount Requested

Per Company---	$24,420*
Per Staff--	$24,420*
Percentage Increase – Per Staff--	18.40 %*

Operating Margin

Per Books--	(201.14%)
As Adjusted---	44.05%
After Proposed Increase--	47.07%

*These figures were computed by the Utilities Department.

REPORT OF AUDIT DEPARTMENT

THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

DOCKET NO. 2003-41-S

MOORE SEWER, INC.

ANALYSIS

The Audit Department Staff has made a review of the Application of Moore Sewer, Inc. , (hereinafter referred to as "the Company") along with certain of the Company's accounting records, relative to the Company's application for adjustment of rates and charges to reflect a collection-only sewerage utility as shown in Docket No. 2003-41-S.

The Audit Department respectfully submits the results of its review as follows:

1. The Company filed an application with this Commission on February 6, 2003.
2. This matter is set for public hearing on Tuesday, June 17, 2003 at 2:30 p.m.
3. The Company's principal place of business is 110 Milliken Road, Spartanburg, South Carolina.
4. The Company's application utilizes an October 31, 2002 test period.

The following is a summary of the Company's most recent rates and charges:

Date of Order	Effective Date	Docket Number	Order Number	Amount Requested	Amount Granted	Operating Margin
03/15/01	03/15/01	1999-397-S	2001-243	$73,025	$35,717	24.51%
01/12/90	01/12/90	88-45-S	90-31	$89,880	$78,975	24.62%
01/26/89	01/26/89	87-204-S	89-82	$21,152	$18,131	9.79%

The Audit Department Staff's exhibits relative to the Company's proposed increase are as follows:

EXHIBIT A: OPERATING EXPERIENCE AND OPERATING MARGIN

Shown in this exhibit are the Company's sewer operations for the twelve months ended October 31, 2002, with respect to Operating Experience and Operating Margin. The exhibit's format is designed to reflect per book information and applicable accounting and pro forma adjustments necessary to correct or normalize operations and show collection-only operations for the Company's test year.

Staff verified the per book balances to the Company's books and records. The book figures reflect that the Company's Operating Revenues totaled $88,476. Total Operating Expenses amounted to $262,156 resulting in Net Operating Income of ($173,680). The Company had no customer growth. Net Income for Return of ($173,680) and Operating Revenues of $88,476 produced an Operating Margin of (201.14%) after including per book Interest Expense of $4,282. The net effect of Accounting and Pro Forma Adjustments increased Total Income for Return from ($173,680) to $61,074 producing an Operating Margin of 44.05%. The As Adjusted Operating Margin includes Interest Expense of $2,535.

The Company has requested an increase in rates which would produce additional gross annual revenues of $24,420 based on information supplied by the Utilities Department. Staff adjusted for gross receipts taxes and Income Taxes associated with the proposed increase.

After the proposed increase, Total Operating Revenues amounted to $157,320 and Total Operating Expenses amounted to $80,734, which produced Net Income for Return of $76,586. The Company had no Customer Growth. Net Income for Return of $76,586 and Total Operating Revenues of $157,320 produced an Operating Margin of 47.07%. The After the Proposed Increase Operating Margin includes synchronized Interest Expense of $2,535.

EXHIBIT A-1: EXPLANATION OF ACCOUNTING AND PRO FORMA ADJUSTMENTS

Shown in this exhibit are the details of each accounting and pro forma adjustment necessary to correct or normalize operations and to show the collection only sewer operations. The exhibit also shows adjustments associated with the proposed increase. For comparative purposes, Company and Staff adjustments are both presented in this exhibit.

EXHIBIT A-2: COMPUTATION OF DEPRECIATION EXPENSE

Shown in this exhibit is Staff's annualized Depreciation Expense using the year-end plant and depreciation rates recommended by the Utilities Department and the Depreciation Expenses allocated to the collection-only expenses. Staff computed total Depreciation Expense of $3,059 less the per book amount of $9,552 for an adjustment of ($6,493).

EXHIBIT A-3: COMPUTATION OF INCOME TAXES

Shown is this exhibit are the computations of state and federal income taxes. Staff used the state tax rate of 5% and the federal tax rate of 15%, 25%, and 34% where applicable. Staff used synchronized Interest of $2,535 to compute income taxes as adjusted and after the proposed increase.

EXHIBIT A-4: AMORTIZATION OF CAPACITY FEES

Shown in this exhibit are the capacity fees paid to the City of Spartanburg and the Spartanburg Sanitary Sewer District. These capacity fees were required to be paid before the interconnection of Madera and Linville Hills subdivisions. The total capacity fees of $54,988 are amortized over a 40-year period, as recommended by the Utilities Department, for a yearly amount of $1,375.

EXHIBIT A-5: AMORTIZATION AND CAPITALIZATION OF CLOSE-OUT COSTS

Shown in this exhibit are the detailed expenses for the extraordinary retirement of the costs to close down the sewer lagoon, and the capitalization of the sewer line interconnection and manhole expenses. The exhibit also shows the computation of Depreciation Expense for the capitalized plant and differences between the Company's and Staff's figures.

EXHIBIT A-6: INCOME STATEMENT FOR COLLECTION-ONLY OPERATIONS

Shown is this exhibit is the revenue and the details of the Company's allocations and Staff's assignment of collection-only expenses for each expense account. The exhibit shows the balances in the accounts after the Company's and Staff's adjustments.

EXHIBIT A-7: INCOME STATEMENT - PER BOOKS – FOR THE TEST YEAR ENDED OCTOBER 31, 2002

The per book Income Statement figures for the test year ending October 31, 2002 are reflected in this exhibit. Staff verified all balances contained in this statement to the Company's books and records.

EXHIBIT A-8: BALANCE SHEET – PER BOOKS – FOR THE TEST YEAR ENDED OCTOBER 31, 2002

Shown is this exhibit is the statement of financial position of the Company as of the end of the test year. Staff verified the balances contained in this statement to the Company's books and records.

AUDIT EXHIBIT A

MOORE SEWER, INC.
OPERATING EXPERIENCE AND OPERATING MARGIN
TEST YEAR ENDED OCTOBER 31, 2002

Description	(1) Per Books	(2) Accounting & Pro Forma Adjustments		(3) As Adjusted Collection Only	(4) Effect of Proposed Increase		(5) After Proposed Increase
	$	$		$	$		$
Operating Revenues							
Service Revenue	88,476	44,424	(1)	132,900	24,420	(7)	157,320
Total Operating Revenues	88,476	44,424		132,900	24,420		157,320
Operating & Maintenance Expenses	228,815	(204,342)	(2)	24,473	0		24,473
General & Administrative Expenses	21,772	1,579	(3)	23,351	0		23,351
Depreciation & Amortization Expense (A)	9,552	(3,507)	(4)	6,045	0		6,045
Taxes Other Than Income	1,974	(621)	(5)	1,353	199	(8)	1,552
Income Taxes (B)	43	16,561	(6)	16,604	8,709	(9)	25,313
Total Operating Expenses	262,156	(190,330)		71,826	8,908		80,734
Net Operating Income	(173,680)	234,754		61,074	15,512		76,586
Customer Growth (C)	0	0		0	0		0
Net Income For Return	(173,680)	234,754		61,074	15,512		76,586
Operating Margin (D)	-201.14%			44.05%			47.07%

(A) The Computation of Depreciation Expense is shown on Audit Exhibit A-2.
(B) The Computation of Income Taxes is shown on Audit Exhibit A-3.
(C) The Company has no Customer Growth, 460 customers at the beginning and ending of the test year, per the Utilities Department.
(D) The Per Book Operating Margin includes Interest Expense of $4,282. The As Adjusted and After Proposed Increase Operating Margin includes synchronized Interest Expense of $2,535.

MOORE SEWER, INC.
EXPLANATION OF ACCOUNTING AND PRO FORMA ADJUSTMENTS
TEST YEAR ENDED OCTOBER 31, 2002

Line No.	Description Revenue and Expenses	(1) Operating Revenues	(2) Operating & Maintenance	(3) General & Admin.	(4) Depreciation & Amortization	(5) Taxes Other Than Income	(6) Income Taxes
		$	$	$	$	$	$
1	The Staff proposes to annualize revenues using the year end customers for Madera and Linville Hills subdivisions at the present rates. (U)						
	Per Staff	44,424					
	Per Company	0					
2	The Staff proposes to remove the per book amount of $10,162 for purchased power since it represents accrued expenses for a prior period. Staff corrects the account in adjustment #3. For this account the Company proposes to allocate 25% of the purchased power expenses of $10,162 or $2,541 to collection-only expenses, therefore removing ($7,621) from operating expenses. (A)						
	Per Staff		(10,162)				
	Per Company		(7,621)				
3	The Staff proposes to reclass Utilities Non-electric to the Purchased Power account and to allocate 25% of the total test year electric expenses to collection only operations. This allocation rate was recommended by the Utilities Department. Total Electric Expenses amounted to $5,683 with 25% or $1,421 being allocated to collection only expenses. This amounts to an adjustment of ($3,503), the account balance of $1,421 less the per book amount of $4,924. The Company proposes to include the total per book amount in the collection-only expenses. (A) & (U)						
	Per Staff		(3,503)				
	Per Company		0				

MOORE SEWER, INC.
EXPLANATION OF ACCOUNTING AND PRO FORMA ADJUSTMENTS
TEST YEAR ENDED OCTOBER 31, 2002

Line No.	Description Revenue and Expenses	(1) Operating Revenues	(2) Operating & Maintenance	(3) General & Admin.	(4) Depreciation & Amortization	(5) Taxes Other Than Income	(6) Income Taxes
		$	$	$	$	$	$
4	The Staff proposes to reclassify the total expenses for Fuel for Power Production of $1,991. The fuel was for the equipment used to close down the sewer pond and for the sewer line interconnection. These expenses would be eliminated for a collection-only sewer system. The Company proposes to include 100% of the per book amount in operating expenses. Therefore no Company adjustment was made. (A)						
	Per Staff		(1,991)				
	Per Company		0				
5	The Staff proposes to remove the total expenses for chemicals of $1,281. These chemicals were used for the sewer treatment plant and are no longer needed for a collection-only system. The Company proposes to include 40% of the per book amount of $1,281, or $513, resulting in a Company adjustment of ($768). (A)						
	Per Staff		(1,281)				
	Per Company		(768)				
6	The Staff proposes to remove $6,690 from total materials and supplies of $14,205 and reclassify to close-out and capital costs. Staff removed manhole expenses of $2,177 and sewer line extension expenses of $4,513 which resulted in an account balance of $7,515 for collection only materials and supplies. The Company proposes to allocate 84.68% of the per book amount of $14,205 or $12,028 to collection only expenses, which results in a Company adjustment of ($2,177). (A)						
	Per Staff		(6,690)				
	Per Company		(2,177)				

MOORE SEWER, INC.
EXPLANATION OF ACCOUNTING AND PRO FORMA ADJUSTMENTS
TEST YEAR ENDED OCTOBER 31, 2002

Line No.	Description Revenue and Expenses	(1) Operating Revenues	(2) Operating & Maintenance	(3) General & Admin.	(4) Depreciation & Amortization	(5) Taxes Other Than Income	(6) Income Taxes
		$	$	$	$	$	$
7	The Staff and the Company propose to allocate 100% of the per book expenses for Office, Postage, Miscellaneous, and Taxes Other Than Income. Therefore no adjustment is needed for these accounts. (A)						
	Per Staff			0		0	
	Per Company			0		0	
8	The Staff proposes to annualize Contractual Services - Billing to reflect the expenses for billing the customers of Linville Hills and Madera subdivisions. The cost is $1.00 per bill and the Company sends out 307 bills per month, which amounts to $3,684 per year. Staff subtracted the per book amount of $3,092 from this amount for a total adjustment of $592. The Company proposes to include 100% of the per book amount of $3,092 for collection only expenses. Therefore no Company adjustment was made. (A)						
	Per Staff			592			
	Per Company			0			
9	The Staff proposes to remove $11,961 from total Contractual Services-Professional of $16,148, resulting in an account balance of $4,187. Staff reclassified $2,600 for the engineering and surveying of the Linville Hills sewer line connection to capital expenses, amortized an extraordinary electrical repair of $4,189 over a 5-year period by eliminating $3,351, removed expenses already included in the account of $357, and reclassified equipment rental expenses of $1,436 to close-out and capital expenses. Staff removed rate case expenses in the test year of $4,217 and amortized these expenses over 5 years in adjustment #21. The Company proposes to allocate 82.97% of the per book amount of $16,148 or $13,398 to collection only expenses for an adjustment of ($2,750). (A)						
	Per Staff		(11,961)				
	Per Company		(2,750)				

MOORE SEWER, INC.
EXPLANATION OF ACCOUNTING AND PRO FORMA ADJUSTMENTS
TEST YEAR ENDED OCTOBER 31, 2002

Line No.	Description Revenue and Expenses	(1) Operating Revenues	(2) Operating & Maintenance	(3) General & Admin.	(4) Depreciation & Amortization	(5) Taxes Other Than Income	(6) Income Taxes
		$	$	$	$	$	$
10	The Staff and the Company propose to remove Contractual Services -Testing. These expenses will no longer be needed for a collection only system. Staff reclassified $1,190 to close-out costs and eliminated $1,800 for monthly testing expenses. (A)						
	Per Staff		(2,990)				
	Per Company		(2,990)				
11	The Staff proposes to eliminate total Contractual Services-Other of $83,100, resulting in an account balance of -0-. The Staff eliminated $6,000 for the sewer plant operator, $13,500 for payment on accounts payable to Operations Drains which had already been included in expenses, $847 for pump repairs which would be eliminated as a collection only expense, $821 for items which should be capitalized, and reclassified equipment rental of $4,620 and labor expenses of $57,312 to the close-out and capital expenses. The Company proposes to include 4.08% of the per book expenses of $83,100 or $3,390 for collection only expenses, which results in a Company adjustment of ($79,710). (A)						
	Per Staff		(83,100)				
	Per Company		(79,710)				

MOORE SEWER, INC.
EXPLANATION OF ACCOUNTING AND PRO FORMA ADJUSTMENTS
TEST YEAR ENDED OCTOBER 31, 2002

Line No.	Description Revenue and Expenses	(1) Operating Revenues	(2) Operating & Maintenance	(3) General & Admin.	(4) Depreciation & Amortization	(5) Taxes Other Than Income	(6) Income Taxes
		$	$	$	$	$	$
12	The Staff proposes to remove rental expense of $97,172 from the per book amount of $98,939, resulting in an account balance of $1,767. The account balance includes office rent and utilities. Staff eliminated prior period rent to the shareholder of $18,600 for the rental of the lagoon which is no longer needed after the close of the treatment facilities and eliminated $14,400 which was also included in this account as rent to shareholder. Staff considered these amounts to be a distribution to the shareholder and not an expense item. However in Docket No. 1999-397-S, Order No. 2001-243, the Commission allowed the owner a salary of $19,200 ($1,600 per month). Staff reclassified expenses of $64,319 associated with closing the lagoon, manholes, and the sewer line extension to close-out and capital costs. Staff also annualized the rental and office expenses and increased expenses by $147. The Company proposes to allocate 22.22% of the per book amount of $98,939 or $21,980 to collection only expenses, which results in a Company adjustment of ($75,959). (A)						
	Per Staff		(97,172)				
	Per Company		(75,959)				
13	The Staff proposes to remove 2001 accrued expenses for Transportation of $877 from the per book amount of $5,451, resulting in an account balance of $4,574. Prior period expenses should not be included in the test year figures. The Company and Staff propose to allocate 100% of the transportation expense of $5,451 and $4,574 respectively, to the collection-only expenses. (A)						
	Per Staff			(877)			
	Per Company			0			

MOORE SEWER, INC.
EXPLANATION OF ACCOUNTING AND PRO FORMA ADJUSTMENTS
TEST YEAR ENDED OCTOBER 31, 2002

Line No.	Description Revenue and Expenses	(1) Operating Revenues	(2) Operating & Maintenance	(3) General & Admin.	(4) Depreciation & Amortization	(5) Taxes Other Than Income	(6) Income Taxes
		$	$	$	$	$	$
14	The Staff proposes to remove 2001 accrued expenses of $1,428 for Insurance from the per book amount of $4,990, resulting in an account balance of $3,562. Prior period expenses should not be included in the test year figures. The Company and Staff propose to allocate 100% of the per book expense of $4,990 and $3,562 respectively, to collection only expenses. (A)						
	Per Staff			(1,428)			
	Per Company			0			
15	The Staff and the Company propose to eliminate 100% of Livestock Expense which is no longer needed for a collection only system. (A)						
	Per Staff			(22)			
	Per Company			(22)			
16	The Staff proposes to reflect 12 months for telephone expenses by removing $159 from the per book amount of $2,360 which results in an account balance of $2,201. The Company and Staff propose to include 100% of the per book amount of $2,360 and $2,201 respectively. (A)						
	Per Staff			(159)			
	Per Company			0			

MOORE SEWER, INC.
EXPLANATION OF ACCOUNTING AND PRO FORMA ADJUSTMENTS
TEST YEAR ENDED OCTOBER 31, 2002

Line No.	Description Revenue and Expenses	(1) Operating Revenues	(2) Operating & Maintenance	(3) General & Admin.	(4) Depreciation & Amortization	(5) Taxes Other Than Income	(6) Income Taxes
		$	$	$	$	$	$
17	The Staff and Company propose to annualize depreciation expense based on year-end plant and depreciation rates recommended by the Utilities Department and reflect depreciation expenses allocated to collection-only operations. See Audit Exhibit A-2. The Company proposes to allocate 50.78% of the per book amount of $9,552 for the account balance of $4,850. The Company's adjustment is ($4,702). The undepreciated value of the retired plant of $11,539 is included in the close-out costs for the sewer lagoon as an extraordinary retirement. (A) & (U)						
	Per Staff				(6,493)		
	Per Company				(4,702)		
18	The Staff proposes to remove $503 from the taxes and licenses expense account which was inadvertently added to this account. The Company had originally filed in its application an account balance of $1,703. The Company also made this correction in its prefiled testimony. The Staff also proposes to remove $1,200 for the DHEC permits which are no longer needed for a collection-only system per the Utilities Department. (A & U)						
	Per Staff					(1,703)	
	Per Company					(503)	
19	The Staff and Company propose to amortize over 40 years, the capacity fees paid to the Spartanburg Sanitary Sewer District of $17,933 and to the City of Spartanburg of $28,154 for the Madera connection and the known and measurable amount of $8,901 to be paid to the Spartanburg Sanitary Sewer District, for a total amortization of $1,375 ($54,988/40 years). See Audit Exhibit A-4. The Company originally filed in its application an amount of $2,380. The Company also proposes an adjustment of $1,375 in its revised application Exhibit B-6. (A) & (U)						
	Per Staff				1,375		
	Per Company				1,375		

MOORE SEWER, INC.
EXPLANATION OF ACCOUNTING AND PRO FORMA ADJUSTMENTS
TEST YEAR ENDED OCTOBER 31, 2002

Line No.	Description Revenue and Expenses	(1) Operating Revenues	(2) Operating & Maintenance	(3) General & Admin.	(4) Depreciation & Amortization	(5) Taxes Other Than Income	(6) Income Taxes
		$	$	$	$	$	$
20	The Staff proposes to adjust for an extraordinary retirement of the treatment plant and costs associated with the close out of the sewer lagoon. Staff amortized the total expenses for the extraordinary retirement of $72,541 over 5 years, for a total yearly amortization of $14,508. The 5-year amortization period is the average time between the Company's last three rate proceedings. The Staff proposes to capitalize the expenses for the manholes and the sewer line extension of $64,453. The capitalized expenses include labor, equipment rentals, and materials and supplies. Staff computes depreciation expense of $1,611 using a depreciation rate of 2.5% or 40 years as recommended by the Utilities Department. The Company proposes to amortize total close-out expenses of $143,109 over a three-year period for an adjustment of $47,703. See Exhibit A-5 for details. (A) & (U)						
	Per Staff		14,508		1,611		
	Per Company		47,703		0		
21	The Staff proposes to amortize rate case expenses over a 5-year period. The 5-year period is based on the rate case history of the Company and its previous owner. Staff determined that three (3) cases, including the current case, have been filed over a 15-year period for an average of 5 years between each case. Staff amortized total rate case expenses of $17,363, which included test year expenses from the previous Docket No. 2002-104-S of $4,217, over 5 years for a total amortization of $3,473. The Company proposes to amortize estimated rate case expenses of $12,000 over a three-year period for an amount of $4,000. (A)						
	Per Staff			3,473			
	Per Company			4,000			

MOORE SEWER, INC.
EXPLANATION OF ACCOUNTING AND PRO FORMA ADJUSTMENTS
TEST YEAR ENDED OCTOBER 31, 2002

Line No.	Description Revenue and Expenses	(1) Operating Revenues	(2) Operating & Maintenance	(3) General & Admin.	(4) Depreciation & Amortization	(5) Taxes Other Than Income	(6) Income Taxes
		$	$	$	$	$	$
22	The Staff proposes to compute gross receipts taxes on the as adjusted revenue. There were no gross receipts taxes per books. (A)						
	Per Staff					1,082	
	Per Company					0	
23	The Staff proposes to adjust income taxes based on taxable income as adjusted including synchronized interest expense. See Exhibit A-3 for details. (A)						
	Per Staff						16,561
	Per Company						0
	Total Accounting and ProForma Adjustments						
	For Collection Only Expenses						
	Per Staff	44,424	(204,342)	1,579	(3,507)	(621)	16,561
	Per Company	0	(124,272)	3,978	(3,327)	(503)	0

MOORE SEWER INC.
EXPLANATION OF ACCOUNTING AND PRO FORMA ADJUSTMENTS
TEST YEAR ENDED OCTOBER 31, 2002

Proposed Increase

Line No.	Description Revenue and Expenses	(7) Operating Revenues	(8) Taxes Other Than Income	(9) Income Taxes
		$	$	$
24	The Staff and Company propose to show the effect of the proposed increase. (U)			
	Per Staff	24,420		
	Per Company	24,420		
25	The Staff proposes to adjust gross receipts taxes for the effect of the proposed increase. (A)			
	Per Staff		199	
	Per Company		0	
26	The Staff proposes to adjust income taxes for the effects of the proposed increase. See Audit Exhibit A-3 for details. (A)			
	Per Staff			8,709
	Per Company			9,370
	Total Accounting & Proforma Adjustments			
	Proposed Increase			
	Per Staff	24,420	199	8,709
	Per Company	24,420	0	9,370

(A) - The Audit Department is responsible for this adjustment.
(U) - The Utilities Department is responsible for this adjustment.

AUDIT EXHIBIT A-2

MOORE SEWER, INC.
COMPUTATION OF DEPRECIATION EXPENSE
TEST YEAR ENDED OCTOBER 31, 2002

Description	Per Books	* % Allocated to Collection	Plant Allocated to Collection	Service Life	* Rates	Annualized Depreciation
	$	%	$	#	%	$
Structures & Improvements						
Sewer System (1)	2,066	0%	0	40	2.50%	0
Sewer System (1)	6,099	0%	0	40	2.50%	0
Sewer System	12,450	100%	12,450	40	2.50%	311
Sewer Upgrade	57,948	100%	57,948	40	2.50%	1,449
Piping to Aerator Pump (1)	311	0%	0	40	2.50%	0
Impact Fees (2)	46,087	0%	0	40	2.50%	0
Collection Sewer Gravity	5,426	100%	5,426	40	2.50%	136
Shut Off Valves	615	100%	615	15	6.67%	41
Flow Measuring Device (1)	2,733	0%	0	40	2.50%	0
Flow Measuring Device (3)	4,857	100%	4,857	40	2.50%	121
Treatment & Disposal Equipment (1)	4,443	0%	0	25	4.00%	0
Other Plant & Misc. Equipment	6,346	100%	6,346	10	10.00%	FD
Office Furniture & Equipment	1,595	100%	1,595	10	10.00%	160
Computer Software (4)	700	100%	700	5	20.00%	140
Tools, Shop & Garage Equipment	2,567	100%	2,567	5	20.00%	513
Tools, Shop & Garage Equipment (5)	121	100%	121	5	20.00%	24
Power Operated Equipment	1,644	100%	1,644	10	10.00%	164
Totals	156,008		94,269			3,059

Per Book Depreciation Expense	9,552
Adjustment to Depreciation Expense - Per Staff	(6,493)
Adjustment to Depreciation Expense - Per Company	(4,702)

(1) Reclassified the undepreciated balance of $11,539 to close-out expenses as an Extraordinary Retirement to be amortized over a 5-year period.
(2) Impact Fees amortized over 40 years in a separate adjustment.
(3) New Flow Measuring Device ($4,857) needed to measure flow from Linville Hills subdivision yo the Spartanburg County Sewer District.
(4) Staff reclassified Computer Software from Account # 736 - Contractual Services - Other.
(5) Staff reclassified Tools from Account #736 - Contractual Services - Other.

FD - Fully Depreciated

* Allocation and Depreciation rates were recommended by the Utilities Department.

MOORE SEWER, INC.
COMPUTATION OF INCOME TAXES
FOR THE TEST YEAR ENDED OCTOBER 31, 2002

As Adjusted

			$
Operating Revenue			132,900
Less: Operating Expenses			55,222
Less: Interest Expense			2,535
Taxable Income			75,143
State Income Taxe Rate			5.00%
State Income Taxes			**3,757**
Federal Taxable Income			71,386
Federal Taxes			
	15%	50,000	**7,500**
	25%	21,386	**5,347**
Total State & Federal Taxes			**16,604**
Less: Income Taxes per Books			43
Adjustment			16,561

After Proposed Increase

			$
Operating Revenues			157,320
Less: Operating Expenses			55,421
Less: Interest Expense			2,535
Taxable Income			99,364
State Income Taxe Rate			5.00%
State Income Taxes			**4,968**
Federal Taxable Income			94,396
Federal Taxes			
	15%	50,000	**7,500**
	25%	25,000	**6,250**
	34%	19,396	**6,595**
Total State & Federal Taxes			**25,313**
Less: Income Taxes - As Adjusted			16,604
Adjustment			8,709

AUDIT EXHIBIT A-4

MOORE SEWER, INC.
AMORTIZATION OF CAPACITY FEES
TEST YEAR ENDED OCTOBER 31, 2002

Date	Payee	Amount	Description
		$	
6/1/2001	Spartanburg Sanitary Sewer District	17,933	Capacity Fee for Madera - Spartanburg Water System
6/1/2001	City of Spartanburg	28,154	Capacity Fee for Madera - City of Spartanburg
To be paid	Spartanburg Sanitary Sewer District *	8,901	Capacity Fee for Linville Hills
	Total Capacity Fees	54,988	
	Expense Amortized Over 40 years	1,375	

* Verified to letter from the Spartanburg Sanitary Sewer District

AUDIT EXHIBIT A-5

MOORE SEWER, INC.
AMORTIZATION AND CAPITALIZATION OF CLOSE-OUT COSTS
TEST YEAR ENDED OCTOBER 31, 2002

Description	Close-Out Sewer Lagoon	Sewer Line Extension	Manholes	Staff's Totals	Company's Totals	Difference
	$	$	$	$	$	$
Sewer Lagoon Close-Out	3,940			3,940	3,940	0
Sewer Line Extension		5,321		5,321	3,700	1,621
Manholes			2,177	2,177	2,177	0
Payment on Accounts Payable to ODI					12,500	(12,500)
Accrued Expenses paid by Moore	4,620			4,620	4,620	0
Accrued Labor expenses due to ODI	23,601	23,601		47,202	57,312	(10,110)
Accrued Labor paid by ODI for Moore Sewer	7,411	7,410		14,821	14,821	0
Accrued Rental Expenses Owed ODI	14,619	14,619		29,238	37,250	(8,012)
Accrued Rental Equipment Rental Expenses	5,815	5,815		11,630	6,787	4,843
Materials & Supplies - Acct. # -720		4,513		4,513		4,513
Fuel for Power Production - Acct. #716	996	996		1,992		1,992
Totals	61,002	62,275	2,177	125,454	143,107	(17,653)

Extraordinary Retirement	
Close-Out Sewer Lagoon	61,002
Undepreciated Balance of Retired Treatment Plant	11,539
Total Close-out Costs	72,541
Amortized over 5 years	14,508

Capitalize Plant	
Total Manholes	2,177
Total Sewer Line Connection	62,275
Total	64,452

Depreciation Expense	
Total Capitalized Plant	64,452
Depreciation Rate - Recommended by Utilities Dept.	2.50%
Depreciation Expense	1,611

AUDIT EXHIBIT A-6

MOORE SEWER, INC.
INCOME STATEMENT FOR COLLECTION-ONLY OPERATIONS
FOR THE TEST YEAR ENDED OCTOBER 31, 2002

	Per Company			Per Staff		
Description	Per Books	Allocated to Collection	Expenses Allocated to Collection-Only	Adjustments Per Staff	Expenses For Collection-Only	After Proposed Increase
	$	%	$	$		$
Operating Revenues	88,476		196,170	44,424	132,900	157,320
Purchased Power	10,162	25.00%	2,541	(10,162)	0	0
Fuel for Power Production	1,991	100.00%	1,991	(1,991)	0	0
Chemicals	1,281	40.00%	513	(1,281)	0	0
Materials & Supplies	14,204	84.68%	12,028	(6,690)	7,514	7,514
Office Expense	230	100.00%	230	0	230	230
Postage	513	100.00%	513	0	513	513
Contractual Service-Billing	3,092	100.00%	3,092	592	3,684	3,684
Contractual Service-Professional	16,148	82.97%	13,398	(11,961)	4,187	4,187
Contractual Services-Testing	2,990	0.00%	0	(2,990)	0	0
Contractual Services-Other	83,100	4.08%	3,390	(83,100)	0	0
Rents	98,939	22.22%	21,980	(97,172)	1,767	1,767
Transportation Expense	5,451	100.00%	5,451	(877)	4,574	4,574
Insurance Expense	4,990	100.00%	4,990	(1,428)	3,562	3,562
Miscellaneous Expense	190	100.00%	190	0	190	190
Utilities Non Electric	4,924	100.00%	4,924	(3,503)	1,421	1,421
Telephone	2,360	100.00%	2,360	(159)	2,201	2,201
Livestock Expense	22	0.00%	0	(22)	0	0
Depreciation Expense	9,552	50.78%	4,850	(6,493)	3,059	3,059
Taxes Other Than Income	271	100.00%	271	0	271	271
Taxes and Licenses	1,703	100.00%	1,703	(1,703)	0	0
Capacity Fee Amortization	0		2,380	1,375	1,375	1,375
Amortization of Close-out Costs, etc.			47,703	14,508	14,508	14,508
Depreciation Expense			0	1,611	1,611	1,611
Amortize Rate Case Expenses			4,000	3,473	3,473	3,473
Gross Receipts Taxes			0	1,082	1,082	1,082
Income Taxes, Utility Operations	43		43	16,561	16,604	16,604
Gross Receipts Taxes-Prop. Inc.						199
Income Taxes - Proposed Inc.			9,370			8,709
Total Operating Expenses	262,156		147,911	(190,331)	71,827	80,734
Net Operating Income (Loss)	(173,680)		48,259	234,755	61,073	76,586
Operating Margin*	**-201.14%**		**24.60%**		**44.05%**	**47.07%**

*The per book Operating Margin includes per book Interest Expense of $4,282.
The As Adjusted and After the Proposed Increase Operating Margins include synchronized Interest Expense of $2,535.

MOORE SEWER, INC.
INCOME STATEMENT - PER BOOKS
FOR TEST YEAR ENDED OCTOBER 31, 2002

Revenues		$	$
	Sewer Fees	88,475.71	
	Total Revenues		88,475.71
Expenses			
	Purchased Power	10,162.16	
	Fuel for Power Production	1,990.78	
	Chemicals	1,281.29	
	Materials & Supplies	14,204.52	
	Office Expense	230.36	
	Postage	512.59	
	Contractual Services - Billing	3,092.00	
	Contractual Services - Professional	16,148.30	
	Contractual Services - Testing	2,989.97	
	Contractual Services - Other	83,099.85	
	Rents	98,938.57	
	Transportation Expense	5,450.82	
	Insurance Expense	4,990.43	
	Miscellaneous Expense	189.94	
	Utilities - Non Electric	4,923.89	
	Telephone	2,360.24	
	Livestock Expense	22.06	
	Depreciation Expense	9,552.31	
	Taxes Other Than Income	270.77	
	Taxes and Licenses	1,702.67	
	Income Taxes, Utility Operations	42.55	
	Total Operating Expenses		262,156.07
	Operating Income (Loss)		(173,680.36)
	Other Expenses		
	Miscellaneous Non Utility Expenses	4,500.00	
	Interest Expense - First Citizens	2,023.55	
	Interest Expense - Stockholder's Loan	2,258.89	
	Total Other Expenses		8,782.44
	Total Operating Income (Loss)		(182,462.80)

MOORE SEWER, INC.
BALANCE SHEET
OCTOBER 31, 2002

		$	$
Assets			
	Current Assets:		
	Cash in Bank - First Citizens	2,109.53	
	Accounts Receivable - Billed	25,968.10	
	Accounts Receivable - Bad Checks	1,833.26	
	Notes Receivable	250.00	
	Total Current Assets		30,160.89
	Property, Plant & Equipment		
	Land & Land Rights	1.00	
	Equipment	16,594.94	
	Impact Fees	46,086.92	
	Sewer System	92,438.63	
	Accumulated Depreciation	(81,800.69)	
	Total Property, Plant, & Equipment		73,320.80
	Total Assets		103,481.69
Liabilities			
	Current Liabilities		
	Notes Payable - First Citizens	2,252.19	
	Accounts Payable	7,672.13	
	Customer Deposits	(280.00)	
	Total Current Liabilities		9,644.32
	Long-Term Liabilities		
	Notes Payable -First Citizens	18,929.99	
	Notes Payable - Operations Drains, Inc.	144,796.41	
	Loan from Stockholder	46,892.83	
	Total Long-Term Liabilities		210,619.23
	Total Liabilities		220,263.55
Equity			
	Common Stock	2,000.00	
	Additional Paid-In Capital	10,000.00	
	Retained Earnings	5,746.84	
	Balance Transferred from Income	(134,528.70)	
	Total Equity		(116,781.86)
	Total Liabilities & Equity		103,481.69